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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 002388

SIPDIS

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TAGS: [PREL](#) [AM](#) [KTRD](#)

SUBJECT: ARBITRATION PRODUCES TELECOM DEAL; ARMENTEL TO GIVE-UP MONOPOLY?

REF: YEREVAN 1456

Classified By: DCM A.F. Godfrey for reasons 1.4 (b) and (d).

SUMMARY

11. (C) Minister of Justice David Harutunyan told the Ambassador on October 27 that the GOAM expected to make an announcement regarding a pending agreement with Armentel to bring a second mobile operator to Armenia and liberalize internet services within the next 10 days following months of international arbitration. (Note: A Greek firm bought 90 percent of Armentel in 1998 and was granted a monopoly through 2013 on all telecommunications in the country and communications lines allowing access to the international market. The GOAM has taken regulatory and legal action to deprive Armentel of its monopoly on all telecommunications because Armentel has failed to meet its investments commitments. End Note.) Harutunyan said the Ministry of Justice and others within the GOAM considered the expected terms of the deal to be "favorable for Armenia" without leaving Armenia susceptible to the "dangers of uncontrolled liberalization." Harutunian predicted that increased competition would provide better high-end service while Armentel would continue to provide basic services. End Summary.

ARMENTEL DEAL EXPECTED SOON

12. (C) Justice Minister Harutunyan told the Ambassador during an October 27 meeting that the GOAM expected to announce a settlement to ongoing international arbitration (reftel) within the next 10 days. He said that the GOAM and Armentel had agreed "in principle" on a settlement package but that Armentel had requested a brief period before officially signing the deal and making the information public. Harutunyan expressed confidence that Armentel would sign the deal and shared his relief that arbitration -- which had become a major financial burden for the GOAM -- would finally come to an end. He said that it was unlikely that the GOAM would be able to continue to finance arbitration were it to continue past the current set of negotiations.

"FAVORABLE FOR ARMENIA"

13. (C) Overall, Harutunyan said the expected terms of the deal were "favorable for Armenia" without leaving the country susceptible what he called the "dangers of uncontrolled liberalization." It was clear from his remarks that he was wary of opening the telecommunications market too quickly without the presence of proven service providers who could compensate for any holes left by an Armentel that was free to immediately exit unprofitable sectors.

IMPROVED HIGH-END SERVICE

14. (C) The deal, according to Harutunyan, would open the market to allow for direct satellite downloads, access to international list circuits and point-to-point connectivity. The minister noted that these reforms would greatly increase Armenia's access to the full range of internet services that would foster a more favorable business and encourage further investment in the country. He claimed that a number of contentious issues (including satellite connectivity) were simply results of sloppy language or translation in the original agreement between Armentel and the GOAM which unintentionally gave Armentel undue freedom in its operations.

COMMENT: MAKING SURE A BETTER DEAL MEANS BETTER SERVICE

15. (C) While saying most of the right things in terms of market liberalization and open competition, Harutunyan's concern that Armenia could become even more of a

telecommunications "hostage" to Armentel in the short-to-medium term says volumes about the complexity of the issue. Assuming Harutunyan's optimism about the announcement is not overstated, the agreement might still be a tough sell for the GOAM to local critics who do not share Harutunyan's concern about the need for an incumbent operator to maintain operations during a transition period or who profit from the status quo. Armenia's current level of telecommunications service -- woefully inadequate at best -- desperately needs a jolt from healthy competition. We will continue to encourage all players in this issue to focus on the economic benefits of liberalization so that the temptations of short-term gains (by those with political/financial interests in the status quo) do not hijack what could be the beginning of better telecommunications service for Armenia.

EVANS